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SUBJECT: Sri Lanka Scenesetter

¶1. (SBU) Sri Lanka stands at a pivotal point in its modern history. The end of the long secessionist war with the LTTE opens up opportunities for national reconciliation, political reform, economic renewal, and international re-engagement. The question is whether the Sri Lankan leadership has the vision, determination, and courage to seize the opportunity. The Sri Lankans value their realtions with the United States. Our challenge is strongly to encourage the Sri Lankan government to embrace reconciliation, accountability, and respect for human rights, while trying not to push the country towards Burma-like isolation from the West.

Aftermath of the Conflict

¶2. (SBU) The final months of the war were brutal, inflicting heavy damage on all sides, both military and civilian. Estimates of the number of dead and wounded vary widely, but outside observers agree that the civilian toll was high. Many believed the Government of Sri Lanka (GSL) could have minimized those casualties had it allowed for some sort of negotiated surrender by the LTTE once the GSL had surrounded remaining LTTE fighters. It is not clear, however, whether greater effort in that direction by the GSL would have been successful. The LTTE seemed intent on holding out to the very end, forcibly recruiting civilians as young as 12 to continue the fight, and using their own civilians as human shields even when it appeared defeat was inevitable. In the last days and weeks of the conflict, it became increasingly difficult to differentiate between civilians and LTTE combatants. Most outside, neutral observers privately agree that the GSL could have finished off the LTTE more quickly if they had been willing to risk a higher level of civilian casualties.

The State Department's recent report to Congress on incidents during the final stage of the war makes clear that significant numbers of civilian dead and wounded were caused by both sides in the final months of the war.

¶3. (SBU) President Mahinda Rajapaksa enjoyed immense popularity among the Sinhalese electorate at the end of the war. He was seen as the political architect of victory in what many thought was an unwinnable war. He appeared invincible at the ballot box in provincial elections during the first half of the year, and indeed this success carried through to October. The government's budget suffered from the high cost of winning the war. Expensive purchases of war-related equipment and ammunition, often on longer-term contracts and using up valuable foreign reserves, coupled with a

drop in exports due to the global economic downturn, pushed Sri Lanka to request a stand-by arrangement from the IMF in early 2009. Approval of this instrument was delayed until July, but while foreign reserves dipped to only a month of imports in May, Sri Lanka's reserves have recovered since then, and the IMF review team issued a bullish report on their progress. Sri Lankans are optimistic that the economy will improve, but it has been harder to lure foreign investment into the private sector. Although there has been a great deal of interest, particularly in areas such as tourism, foreign direct investment is down so far in 2009, following the worldwide trend. The overall defense budget has yet to see any sort of peace dividend. Longer-term contracts with foreign suppliers of military equipment continue to weigh heavily on the budget, and the military has pushed for an expansion of bases and personnel in the north. Many in the military believe that a continued high level of troops is required in the formerly LTTE-held areas to hunt down any remaining LTTE forces, seize hidden caches of weapons, and prevent any resurgence of violence. At the same time, military and civilian officials have stressed to us that the bulk of the requested increase of about 15 percent in the defense budget is due primarily to the GSL's need to pay down military debts incurred during the final stages of the war.

IDPs

14. (SBU) The most pressing issue the GSL must address, and indeed the issue that most concerns many in the international community, is the status of the 250,000-plus internally displaced persons (IDPs) currently held in largely closed refugee camps in northern Sri

COLOMBO 00000999 002.2 OF 004

Lanka. Mostly ethnic Tamils escaped the conflict zone during the final months of the war, only to be placed in what the GSL calls "welfare camps." The GSL's stated reasons for keeping the IDPs confined to the camps have been the need to screen for ex-LTTE combatants and the need to complete demining and other reconstruction-type projects in the IDPs' former villages and towns.

Conditions in the camps, while far from ideal, mostly meet basic humanitarian standards in terms of provision of food, water, and shelter. There is great concern, however, that conditions in the camps will rapidly deteriorate with the onset of the monsoon season, which usually arrives in October but has not yet begun. International pressure on the GSL to release large numbers of the IDPs either to their homes or to host families increased in August and September. The GSL recently announced its intention to accelerate releases from the camps and said it plans to release more than 40,000 in the next few weeks. While confirmation of these figures is difficult, thus far, we have seen evidence that significant numbers of IDPs have begun to depart the camps and return to their homes or to host-family relatives. There are also reports, however, that some "released" IDPs are being subsequently confined to transit camps, as local security officials are reluctant to release them. Nevertheless, there has been an uptick recently in returns and we will watch carefully to see whether the GSL will meet the president's declared target of releasing 70 percent of the IDPs by the end of January.

Other Human Rights Concerns

15. (SBU) Human rights violations continue to be a problem in Sri Lanka. Aside from possible violations during the final months of the war, and the continued confinement of so many IDPs, other human rights problems abound. Disappearances, while significantly down over the past six months according to some indicators, remain a problem. There also continue to be reports of extra-judicial killings, albeit at a reduced rate since the end of the war. Torture of LTTE-related detainees is suspected to continue, and the line between the judiciary and the military continues to be blurred, largely under the guise of the Prevention of Terrorism Act.

16. (SBU) Media freedom is emerging of late as the low spot of human rights problems in the island. Few truly independent sources of news exist in the island. Those that remain are under constant pressure from anonymous threats, attacks and killings, as well as

official harassment from the GSL, leading to widespread self-censorship. Well-known cases include the killing in January of Lasantha Wickremetunga, editor of the Morning and Sunday Leaders, and the trial and conviction of J.S. Tissainayagam under the Prevention of Terrorism Act. All these contributed to Sri Lanka's drop in the Press Freedom listing issued in October by Reporters Without Borders, which placed Sri Lanka near the bottom across the globe. The international community continues to push for the release of Tissainayagam, and in a positive development, his two publishers were acquitted of terrorism-related charges on October 26th.

Reconciliation

17. (SBU) Left unresolved are the many questions revolving around the ethnic tensions between Tamils and Sinhalese that were at the core of the 25-year conflict. The structure of the LTTE in Sri Lanka appears to have been destroyed, with no functional ability to carry out attacks in the island. Few Tamils in Sri Lanka express any desire to resume violent conflict. Strong feelings remain, however, in particular among many Tamils in the north that their economy, culture, and lifestyle now will be overrun by the Sinhalese majority. Rumors abound of plans for Sinhalese colonization of major Tamil towns in the north, and of plans to keep IDPs housed in camps indefinitely. It should be noted, however, that disagreements over land claims in the north and east are more complicated than simple Sinhalese confiscation of Tamil property. While this sometimes may be the case, we are also aware of disputes on land claims that go back for years with no clear resolution.

COLOMBO 00000999 003.4 OF 004

18. (SBU) The big challenge for the Rajapaksa leadership is how to address these underlying causes of Tamil unrest, while at the same time appealing to the broader Sinhalese electorate and keeping hard-line Sinhalese nationalists in check. There are several approaches available, including two approved but unimplemented constitutional amendments. These amendments, the 13th and the 17th, provide various measures to decentralize power and address perceived ethnic-based inequities. Additionally, a report was recently completed by the All Parties Reconciliation Council (APRC), a panel of experts and political actors from varied backgrounds appointed by the president to develop a reconciliation plan. Between the APRC recommendations, the constitutional amendments, and other proposals suggested, different options available include such things as devolution of power to provinces, a second house in the parliament modeled somewhat after the U.S. Senate, and independent oversight bodies meant to serve as a check on powerful state institutions.

19. (SBU) President Rajapaksa has not shown a preference yet for one approach over the others. He has stated that he will not tackle any such political reform until after presidential and parliamentary elections take place in early 2010. Naturally this delay engenders skepticism from many in the Tamil community, but it is true that he would be able to implement much deeper reforms if he obtained a two-thirds' majority in the parliament, enabling him to amend the constitution.

Elections

110. (SBU) Presidential elections are likely to be held earlier than the regularly scheduled date in 2011, but the scenario remains unclear. Earlier it was widely assumed the president would call presidential elections in January followed by regularly scheduled parliamentary election in April. Recently, however, rumors have circulated that the two elections would be held together in April. The president is scheduled to announce his intentions at the ruling-party conference in November. The president's opponents are largely disorganized and share little common ground. The rumor mill has suggested that General Sarath Fonseka, seen as the architect of the military victory over the LTTE, may run against Rajapaksa, but potential allies have not yet agreed to join together to back him as their candidate and seem to prefer if he would join just their own

party instead.

The Economy

¶11. (SBU) Sri Lanka's economy grew relatively well throughout the war years, and Sri Lankans hope the end of the war could trigger an economic boom. Sri Lanka averaged 5 percent GDP growth over the last 20 years, and they have attained a per capita income of USD 2,000, the highest in South Asia after the Maldives. Sri Lanka has developed a strong textile industry, which constitutes 43 percent of their total exports, and they still have significant tea exports. But economic opportunities are unevenly distributed. The Western Province, where Colombo is located, contributes almost 50 percent of Sri Lanka's GDP, while there are many fewer opportunities in other areas, especially the former conflict regions. President Rajapaksa supports a state-directed economy that emphasizes infrastructure development, such as roads, and splashy projects, such as the enormous Hambantota port being constructed by the Chinese in the South in the president's home region. Private investors are coming to look at Sri Lanka, but it is unclear whether the government will create a business-friendly environment to capture foreign investment, except in sure-fire areas such as tourism. Due to political strains with the U.S. and the West, Sri Lanka is looking more to its "new friends" in China, Iran and Libya, but these countries do not have the export markets to replace the U.S. and the West. Perhaps the biggest threat looming on the horizon is loss of the EU's GSP-Plus trade concessions, which could result in the loss of USD 150 million in trade and the possible loss of thousands of jobs.

COLOMBO 00000999 004.2 OF 004

U. S. Assistance

¶12. (SBU) The U.S. has many assistance programs with Sri Lanka in the areas of civil society, economic development, international visitor exchanges, humanitarian assistance training for the military and more. One of the most important components of U.S. aid to Sri Lanka is USAID assistance. USAID has invested more than USD 1.9 billion in Sri Lanka since 1956. In 2008, the USD 134.5 million tsunami reconstruction program was completed successfully, and the rehabilitated infrastructure was handed over to the Government of Sri Lanka. Current programs focus on the Eastern province and adjoining areas, and USAID plans to extend assistance to the north by helping conflict-affected communities return to normalcy as quickly as possible. In 2009 the overall USAID budget was USD 43.12 million.

¶13. (SBU) USAID's economic growth programs are helping to create public-private partnerships, which will foster stability, create sustainable jobs, and jump-start much-needed economic development particularly in conflict-affected areas. Democracy and governance programs provide technical training and support to local government institutions, civil society organizations, community reconciliation groups, and professional journalists. USAID is working in special post conflict programs addressing the reintegration needs of ex-combatants in the community. Small-scale infrastructure programs have helped to rehabilitate seven schools and one hospital damaged during the conflict. USAID provides humanitarian assistance to Sri Lanka through both food and non-food aid and in 2009 provided around USD 36.3 million in assistance. More than 280,000 internally displaced people (IDPs) were assisted by providing water and sanitation facilities, temporary shelters, emergency medical treatment, and mobility aids for the disabled. Emergency assistance provided food to more than 50 percent of the IDPs in the former conflict areas.

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